

NATIONAL LIFE  OF CANADA

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1979

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EIGHTY-FIRST ANNUAL REPORT





# OUR PROGRESS AT A GLANCE



(in thousands)	1979			1978 Total Operations
	Canadian & Caribbean Operations	United States Operations	Total Operations	
<b>New Life Business</b>				
Individual — Direct Written	\$ 219,209	\$ 268,620	\$ 487,829	\$ 452,004
Less Excess of Reinsurance Ceded over Received	19,236	43,448	62,684	69,550
Individual — Net	199,973	225,172	425,145	382,454
Group Insurance	85,847	238,505	324,352	729,625
Group Annuity	677	—	677	10,270
Total	286,497	463,677	750,174	1,122,349
<b>Life Business in Force</b>				
Individual	1,222,716	755,834	1,978,550	1,738,620
Group Insurance	4,129,389	1,648,252	5,777,641	5,152,696
Group Annuity	745,700	52,549	798,249	779,992
Total	6,097,805	2,456,635	8,554,440	7,671,308
(All figures net of reinsurance ceded, unless otherwise indicated)				
<b>Premium Income</b>	94,243	18,694	112,937	109,589
<b>Interest, Dividends and Rents</b>	52,310	3,125	55,435	47,553
<b>Total Assets</b>	613,420	48,012	661,432	590,912
<b>Capital and Surplus</b>	52,377	15,542	67,919	62,156
<b>Benefits Paid or Provided For</b>	127,067	15,284	142,351	133,263
<b>Net Earned Interest Rate on Total Operations</b> With no adjustment for income taxes			9.00%	8.48%

1978 figures have been reclassified to be consistent with 1979 presentation.



# REPORT OF THE BOARD OF DIRECTORS

During 1979, National Life continued to make excellent progress in both growth and financial results.

The Company continued with its plan to emphasize growth in all lines in Canada, with particular emphasis on the marketing of individual life insurance through the branch office system. Organizational changes were made to bring together those head office departments devoted to the marketing and administrative support of the individual insurance business. Initial steps were taken in a program to establish regional group service offices so as to better protect our existing business and to enable us to plan for growth in the group business in Canada. A great deal was achieved in making our individual product line more attractive. Modifications to the design and rate structure of term insurance and retirement annuity plans were introduced during the year. Sales of these products made a major contribution towards Canadian marketing results. Continued emphasis will be placed on maintaining a competitive portfolio of individual insurance plans.

During the year, the Company advanced further through the procedures necessary to wind down our foreign operations. The agreement previously signed in connection with the transfer of the Company's United States operations has been cleared in the most important states and application for sanction was filed with the Canadian

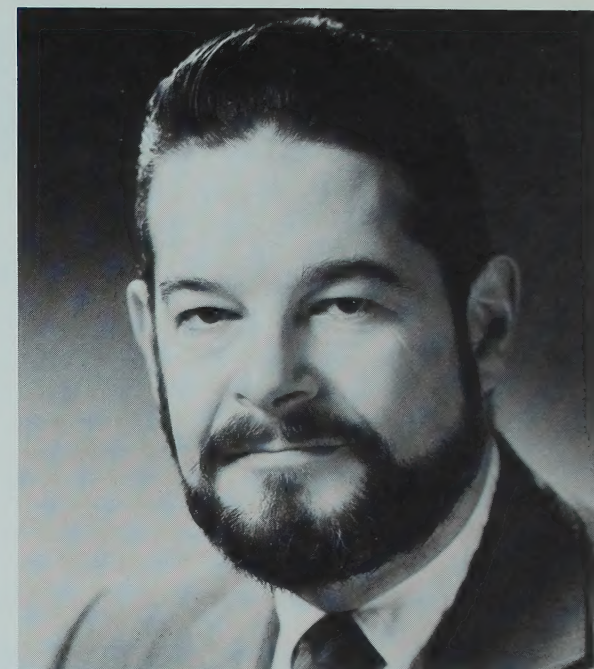
Insurance Department shortly after the end of the year. Discussions with insurance departments and other interested parties were conducted intensively during the year in respect of our Trinidad business and Jamaican business and we expect to have concrete plans prepared and approved during 1980.

Because a signed agreement for the transfer of the Company's U.S. operations is in existence but had not received final sanction at year end, figures for the U.S. operations are still included in this report but have been separated from the other operations so that it is possible to compare the total with previous years and also to examine the Canadian and Caribbean operations by themselves in detail.

## **Sales Activity:**

Sales of individual life business written directly amounted to \$488 million in 1979 compared to \$452 million in 1978. After adjusting for reinsurance ceded and received, the net individual sales increased to \$425 million compared to \$382 million in 1978.

New group insurance, the figures for which are very much affected by large cases, amounted to \$324 million in 1979, which is considerably less than the abnormal amount of \$730 million written in 1978, but compares favourably with most years. This, combined with growth in existing cases, resulted in an increase in



C.T.P. Galloway  
*President*

group insurance in force of \$625 million from \$5.153 billion at the end of 1978 to \$5.778 billion at the end of 1979. Total life business in force, net of reinsurance and including annuities, was \$8.6 billion compared with \$7.7 billion at the end of 1978. These figures do not include the Company's health insurance business, chiefly group disability income, which accounted for \$16.0 million of premium income during the year as compared with \$14.8 million in 1978.





#### Assets:

Exclusive of segregated funds and U.S. operations, assets increased by 10.5% to \$474 million. The amount invested in mortgages increased by \$28.0 million, in bonds by \$9.6 million and in preferred stocks by \$4.8 million. The amount invested in common stock decreased by \$3.5 million as a consequence of sales made under our common stock plan resulting from the substantial appreciation of common share prices in Canada during 1979. Policy loans increased 13.9% to \$17.7 million. The net rate of interest earned on the Company's total non-segregated assets, after deducting investment expenses but with no adjustment for income taxes, was 9.00%. Contributions to segregated funds were \$13.2 million compared to \$14.3 million in 1978.

#### Operating Results:

Statutory income before income taxes, excluding the U.S. business, amounted to \$6.183 million compared to \$5.852 million in 1978. Income taxes were \$614,000 in 1979 as compared to \$334,000 in 1978. The U.S. operations generated an after-tax profit of \$194,000 compared to \$1,785,000 in 1978. This is accounted for by losses in the group life and accident and sickness lines which had been profitable in 1978, and additional marketing expenses in the

individual lines. The resulting net gain from total operations is \$5,763,000 compared to \$7,303,000 in 1978.

#### Capital and Surplus Funds:

Capital and surplus funds increased to \$67,919,000 from \$62,156,000.

#### Officer Appointments:

On April 1, 1979, Mr. S.R. Johnson, C.L.U., joined the Company as Executive Vice-President. At midyear, he assumed responsibility for the newly formed Individual Insurance Division. Mr. Johnson has had considerable experience with another company in the marketing of life insurance, particularly in the area of development of the branch office system in Canada. His skills will be particularly valuable to the Company at a time when our marketing plan requires just such development in Canada.

On December 1, 1979, Mr. F.M. Crispo was appointed Senior Vice-President and Treasurer and Mr. J.K. Williams was appointed Senior Vice-President, General Counsel and Secretary. Both these gentlemen have served the Company for many years, formerly as Vice-Presidents, and have contributed greatly to the Company's progress.

#### Appreciation:

The gratifying results obtained in the year 1979 can be directly attributed to the continued loyalty and dedication of the staff and field force, who have responded with energy and enthusiasm to the challenges and changes that the Company has faced. This is greatly appreciated.

C.T.P. Galloway, *President*



# STATEMENT OF INCOME

Year ended December 31 (in thousands)	1979	1978 <i>Restated</i> (Notes 2 and 3)
<b>Canadian and Caribbean operations</b>		
<b>INCOME</b>		
Insurance and annuity premiums	\$ 94,243	\$ 93,513
Interest, dividends and rents	52,310	44,807
Net realized and unrealized capital gains (Note 4)	5,929	8,960
Total	<u>152,482</u>	<u>147,280</u>
<b>DISPOSITION OF INCOME</b>		
Death and disability benefits	30,329	25,957
Matured endowments and surrender benefits	22,311	66,723
Experience rating refunds on group policies	6,478	10,243
Annuity payments	4,213	3,992
Interest on deposits by policyholders	1,704	1,418
Increase in provision for future guaranteed benefits	29,894	32,784
Increase (decrease) in provision for future benefits from segregated funds	22,083	(23,802)
Other benefit payments	735	609
Sub-total — Benefits paid or provided for excluding dividends to policyholders	<u>117,747</u>	<u>117,924</u>
General insurance expenses	9,938	9,142
Investment expenses	4,645	2,085
Commissions net of commissions on reinsurance ceded	3,360	3,159
Taxes other than income taxes	1,289	1,190
Total	<u>136,979</u>	<u>133,500</u>
Statutory operating income before dividends to policyholders and income taxes	15,503	13,780
Dividends to policyholders	9,320	7,928
Statutory operating income before income taxes	6,183	5,852
Provision for income taxes	614	334
Net statutory operating income	<u>5,569</u>	<u>5,518</u>
<b>United States operations</b>		
Net statutory operating income (Note 3)	<u>194</u>	<u>1,785</u>
<b>Total operations</b>		
Net statutory operating income	<u>\$ 5,763</u>	<u>\$ 7,303</u>

(See accompanying Notes to financial statements)

# STATEMENT OF CAPITAL AND SURPLUS FUNDS



Year ended December 31 (in thousands)	1979	1978 <i>Restated (Note 2)</i>
Capital and surplus funds beginning of year as restated (Note 2)	\$62,156	\$54,853
Net statutory operating income	<u>5,763</u>	<u>7,303</u>
Capital and surplus funds end of year	<u>\$67,919</u>	<u>\$62,156</u>

*(See accompanying Notes to financial statements)*



# STATEMENT OF ASSETS AND LIABILITIES

December 31 (in thousands)	1979	1978 <i>Restated</i> (Note 3)
<b>ASSETS</b>		
<b>Canadian and Caribbean operations</b>		
Bonds	\$195,771	\$186,175
Preferred stocks	19,533	14,730
Common stocks	22,869	26,405
First mortgage loans	194,518	166,536
Policy loans	17,734	15,574
Real estate held for investment (Note 5)	<u>5,381</u>	<u>5,076</u>
Invested assets of other than segregated funds	455,806	414,496
Cash	1,243	326
Premiums receivable	5,265	3,886
Interest due and accrued	6,693	6,153
Leasehold improvements, furniture and equipment	1,559	1,830
Other assets	<u>3,156</u>	<u>2,016</u>
Total assets of other than segregated funds	473,722	428,707
Segregated funds	<u>139,698</u>	<u>118,249</u>
Total assets	<u>613,420</u>	<u>546,956</u>
<b>United States operations</b>		
Total assets (Note 3)	<u>48,012</u>	<u>43,956</u>
<b>Total operations</b>		
Total assets	<u><u>\$661,432</u></u>	<u><u>\$590,912</u></u>

(See accompanying Notes to financial statements)





December 31 (in thousands)	1979	1978 <i>Restated</i> (Notes 2 and 3)
<b>LIABILITIES, CAPITAL AND SURPLUS FUNDS</b>		
<b>Canadian and Caribbean operations</b>		
Provision for future guaranteed benefits	\$326,507	\$296,613
Provision for policyholders' dividends	7,969	6,877
Provision for experience rating refunds on group policies	17,698	16,981
Total actuarial liabilities	352,174	320,471
Provision for claims pending	21,409	19,208
Amounts left on deposit by policyholders	39,450	31,875
Short-term indebtedness	3,378	8,081
Other liabilities	5,695	2,569
Total liabilities of other than segregated funds	422,106	382,204
Segregated funds	138,937	117,669
Total liabilities	561,043	499,873
<b>United States operations</b>		
Actuarial liabilities	27,813	25,385
Other liabilities	4,657	3,498
Total liabilities (Note 3)	32,470	28,883
<b>Total operations</b>		
Total liabilities	593,513	528,756
Capital stock — 100,000 shares at \$10 par value	1,000	1,000
Unappropriated surplus	35,505	34,079
Appropriated surplus (Note 6)	31,414	27,077
Total capital and surplus funds (Note 7)	67,919	62,156
Total liabilities, capital and surplus funds	\$661,432	\$590,912

(See accompanying Notes to financial statements)



# NOTES

The National Life Assurance Company of Canada is incorporated under the laws of Canada and is registered under the Canadian and British Insurance Companies Act. The Company is a subsidiary of The Continental Corporation of New York, N.Y., U.S.A. and operates in all provinces of Canada and states of the United States (see Note 3) and in Jamaica, Trinidad and Tobago, Bermuda, Netherlands Antilles and Cayman Islands.

## 1. Summary of significant accounting policies:

The financial statements combine the life and accident and sickness insurance operations. The accounting policies followed are as prescribed or permitted by the Department of Insurance of Canada for the purpose of reporting to policyholders and shareholders.

- (a) Foreign currency assets, liabilities, income and expenses have been translated at book rates of exchange which are adjusted from time to time. If current rates of exchange had been used, there would have been no material change in surplus funds shown.
- (b) Investments in bonds are carried at amortized cost and, with respect to bonds relating to the life insurance business, the unamortized balance of realized losses or gains on sales of such securities. The difference between the proceeds on the sale of a bond and its amortized cost is amortized over the lesser of 20 years or the period from date of sale to date of maturity with the portion applicable to future years included in the book value of bonds. Gains or losses on sales of bonds relating to the accident and sickness business are taken into income when realized.
- (c) Investments in stocks with respect to the life insurance business are carried at adjusted book value which includes cost, net realized losses or gains on sale of stocks and an adjustment toward market value. The yearly market value adjustment is taken into income and is 7% of the difference between the year-end market value of all equity securities and adjusted book value (before the current year's adjustment toward market value). Investments in stocks with respect to the accident and sickness insurance business are carried at cost. Gains and losses on sale of stocks of this business are taken into income when realized.
- (d) Real estate held for investment is carried at cost less accumulated depreciation and encumbrances, if any. Depreciation is provided at rates based on the terms of the various leases and the expected useful life of the properties.
- (e) Leasehold improvements, furniture and equipment including computer equipment are carried at cost less accumulated depreciation.
- (f) Investments held for segregated funds are carried at market value.

- (g) Actuarial liabilities represent the amount required, together with future premiums and interest, to provide for future benefits determined on insurance and annuity contracts. Actuarial liabilities are calculated on a modified net premium basis using interest, mortality and withdrawal assumptions appropriate for the policies in force, under which costs of acquiring policies are deferred and amortized over the premium paying period.
- (h) Income taxes charged against income are determined on the taxes payable method.
- (i) Refer to Note 3 for the basis of accounting for United States operations.

2. As a result of changes in reporting requirements of the Department of Insurance of Canada, changes in accounting policies which included changes in the method of calculating actuarial liabilities, were adopted in 1978 and a net amount of \$27,592,000 was added to Capital and Surplus funds as at December 31, 1977. In 1979 the valuation actuary adjusted the calculation of actuarial liabilities and the resulting changes have been reflected retroactively to December 31, 1977 and the 1978 figures provided for comparative purposes have been restated. The effect of this restatement is to increase Capital and Surplus funds as of December 31, 1977 by \$628,000, decrease Net Statutory Operating Income for 1978 by \$82,000 and increase Capital and Surplus funds at December 31, 1978 by \$546,000.

3. The Company has entered into an agreement to transfer, for appropriate consideration, the business of its United States branch to Loyalty Life Insurance Company, another subsidiary of Continental incorporated in the state of Michigan. The transfer will be made after all regulatory requirements have been met and the agreement has been sanctioned by the appropriate government officials in Canada and the United States. For some time following the transfer, the Company will provide administrative services to Loyalty Life for expense and service charges as may be agreed between the parties.

When the transfer is made, it will be effective as from January 1, 1979, and the Company will be deemed to have been carrying on the business of its United States branch on behalf of Loyalty Life from that date. Pending completion of the transfer, the 1979 financial statements do not reflect amounts which are expected to accrue to the Company in excess of the net statutory operating income of United States operations nor any adjustments resulting from the excess of book values over market values of U.S. invested assets. Such amounts will be finally determined and reflected when the transfer is completed.

In 1979 the financial statements disclose the assets, liabilities and results of operations separately for U.S. business. The 1978 figures have been reclassified accordingly. A summary of United States operations is as follows:





(in thousands)	1979	1978
Total income	\$21,754	\$18,781
Benefits paid or provided for	15,284	11,567
Commissions, expenses and taxes	6,276	5,429
Net statutory operating income	<u>\$ 194</u>	<u>\$ 1,785</u>

#### 4. Net realized and unrealized capital gains include:

(in thousands)	1979	1978
Life insurance business		
Amortization of net gains on bonds and stocks	\$ 684	\$ 383
Loss on currency exchange transactions	(153)	(95)
Net realized gains on real estate	56	369
Accident and sickness insurance business		
Net realized losses on invested assets	(5)	(87)
Segregated funds		
Net realized and unrealized gains on invested assets	5,347	8,390
Total	<u>\$5,929</u>	<u>\$8,960</u>

#### 5. Real estate held for investment includes:

	1979		1978	
	Head Office			
(in thousands)	Property	Other	Total	Total
Cost	\$8,244	\$5,802	\$14,046	\$12,934
Accumulated depreciation	120	2,052	2,172	2,024
	<u>8,124</u>	<u>3,750</u>	<u>11,874</u>	<u>10,910</u>
Encumbrances	(7,200)	—	(7,200)	(7,200)
Prepayment of interest	707	—	707	1,366
	<u>\$1,631</u>	<u>\$3,750</u>	<u>\$ 5,381</u>	<u>\$ 5,076</u>

The cost of Head Office property includes land of \$990,000, a building purchased from an affiliate in December, 1978 for \$7,200,000 and related costs. The consideration was a note bearing interest at 10-3/4% per annum, maturing in 1998 and secured by a mortgage. During December, 1978, \$1,384,000 of interest was paid against the note, of which \$659,000 related to 1979.

#### 6. Appropriated surplus includes:

(in thousands)	1979	1978
Investment valuation and currency reserve	\$ 7,975	\$ 5,756
Reserve for excess of cash surrender values over provision for future guaranteed benefits	13,251	11,153
Reserve for leasehold improvements, furniture, non-computer equipment and amounts recoverable from agents	1,249	1,147
Total required by The Department of Insurance of Canada	22,475	18,056
Reserve for additional non-Canadian statutory requirements on non-Canadian policies	4,518	4,600
Reserve for general contingencies	4,421	4,421
Total	<u>\$31,414</u>	<u>\$27,077</u>

#### 7. The separation of capital and surplus funds is as follows:

(in thousands)	Participating Fund	Non-Participating Funds and Shareholders Fund
Capital		\$ 1,000
Unappropriated surplus	\$4,015	31,490
Appropriated surplus	<u>1,516</u>	<u>29,898</u>
	<u>\$5,531</u>	<u>\$62,388</u>

In accordance with the Canadian and British Insurance Companies Act, when the mean participating fund does not exceed \$250,000,000, a minimum of 90% of the amounts set aside from the participating fund for a distribution to participating policyholders and shareholders must be distributed to participating policyholders.

#### 8. Jamaica and Trinidad and Tobago operations:

The Company has entered into discussions for the transfer of its Jamaica business and its Trinidad and Tobago business to a Jamaican life insurance company and a Trinidad and Tobago life insurance company respectively. The making of any agreements for such transfers and their implementation are subject to prior compliance with the detailed requirements of the laws relating thereto of Canada, Jamaica and Trinidad and Tobago.

Amounts included in the 1979 financial statements relative to these foreign operations are:

(in thousands)	Jamaica	Trinidad and Tobago
Total assets	\$16,731	\$9,062
Total liabilities and appropriated surplus	15,926	8,521
Unappropriated surplus	805	541



# AUDITORS' REPORT

To the Shareholders and Participating  
Policyholders:

We have examined the statement of assets and liabilities of The National Life Assurance Company of Canada as at December 31, 1979 and the statements of income and capital and surplus funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances; we have relied on the opinion of the Company's valuation actuary as to the valuation of total actuarial liabilities.

In our opinion, based on our examination and the opinion of the valuation actuary and subject to such adjustments as will arise on the completion of the transfer of the operations of the United States branch as described in Note 3 to the financial statements, these financial statements present fairly the financial position of the Company as at December 31, 1979 and the results of its operations for the year then ended in accordance with the

basis of accounting described in Note 1 to the financial statements applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.  
Chartered Accountants

Toronto, Canada  
February 28th, 1980



# REPORT OF THE VALUATION ACTUARY



I have made the valuation of actuarial liabilities of The National Life Assurance Company of Canada, both for its Canadian and Caribbean operations and for its United States operations, for its statement of assets and liabilities as at December 31, 1979 and its statement of income for the year then ended. In my opinion (i) the valuation conforms to the Recommendations for Insurance Company Financial Reporting of the Canadian Institute of Actuaries, (ii) the amounts of the actuarial liabilities make proper provision for the obligations payable in the future under the Company's policies, (iii) a proper charge on account of those liabilities has been made in the statement of income, and (iv) the amount of the reserve for excess of cash surrender values over provisions for future guaranteed benefits included in appropriated surplus is proper.

M.B. McGuinness, F.S.A., F.C.I.A.  
Actuarial Vice-President

Toronto, Canada  
February 28, 1980



# BOARD OF DIRECTORS

**JOHN B. RICKER, JR.**

Chairman of the Board  
National Life of Canada  
*Chairman of the Board and President  
The Continental Corporation*

**CHARLES T.P. GALLOWAY\***

President  
National Life of Canada

**THE HON. JOHN B. AIRD, O.C., Q.C.\***

*Aird and Berlis*

**DONALD S. ANDERSON\***

*Chairman  
Canada Realties Limited*

**WILLIAM J. CORCORAN\*\***

*President  
William J. Corcoran Company Ltd.*

**ROBERT G. DALE\***

*President & Chief Executive Officer  
Maple Leaf Mills Limited*

**DON R. DAVIS\***

*Senior Vice-President  
The Continental Corporation*

**CLAUDE PRATTE, O.C.\*\***

*Advocate*

**DAVID G. WALDON\*\***

*Retired Chairman  
Interprovincial Pipe Line Ltd.*

**NATHAN H. WENTWORTH**

*Retired Chairman  
The Continental Corporation*

**J. KENNETH WILLIAMS, O.C.\***

Senior Vice-President,  
General Counsel & Secretary  
National Life of Canada

\*Member of the Executive Committee

\*\*Member of the Audit Committee

# OFFICERS

**C.T.P. GALLOWAY, F.S.A., F.C.I.A.**

President & Chief Executive Officer

**S.R. JOHNSON, C.L.U.**

Executive Vice-President

*Administration***R.H. MASON, C.A., F.L.M.I.**

Vice-President & Comptroller

*Agency***R.H.C. FENTON, C.L.U.**

Vice-President & Director of Agencies

*Corporate Actuarial***M.B. MCGUINNESS, F.S.A., F.C.I.A.**

Actuarial Vice-President

*Data Processing and Investment***F.M. CRISPO**

Senior Vice-President & Treasurer

**T.L. DEA**

Investment Vice-President

*Group***G.F.M. MAYO, F.I.A., F.C.I.A.**

Group Vice-President

*Law and Corporate***J.K. WILLIAMS, O.C.**

Senior Vice-President,  
General Counsel & Secretary

**D.H. CRESWELL, LL.B., F.L.M.I.**

Legal Vice-President

*New Business Administration***R. BLANE, F.F.A., F.C.I.A.**

Actuarial Vice-President







**THE NATIONAL LIFE ASSURANCE COMPANY OF CANADA**

Head Office: 522 University Avenue, Toronto, Canada M5G 1Y7

a subsidiary of The Continental Corporation